

# Philippine Economic *Outlook*

OCTOBER 2002

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## Introduction

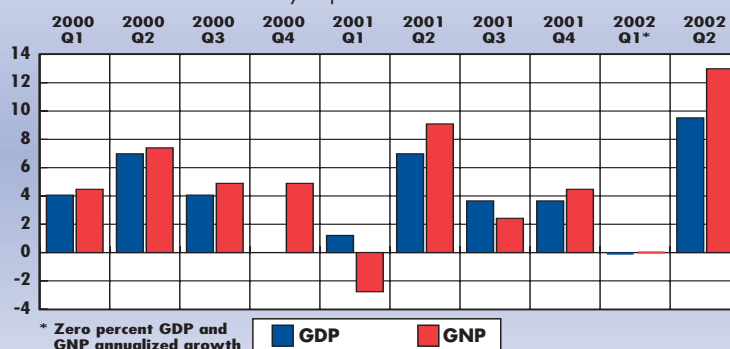


There have been some recent, positive developments in the Philippine economy. Philippine Gross Domestic Product grew 4.5% year-on-year during the second quarter of 2002, exceeding both public and private sector expectations. Year-on-year inflation, which averaged 3.3% during the first eight months of the year, remains well below the government's 4.5%-5.5% full-year targeted range. Domestic interest rates have fallen significantly, aided by a stable monetary policy, low inflation, and, overall, a less volatile peso. The balance of payments has broken the pattern of two consecutive years of deficits, helped in part by workers' remittances and improving exports.

The widening fiscal deficit is a glaring exception to positive developments elsewhere in the economy. In 2001, the Macapagal-Arroyo Administration won praise for sticking to its budget-deficit target. However, duplicating that performance this year has proven difficult. By July 2002, the national government's fiscal deficit had already exceeded the P145 billion ceiling programmed for the entire year, reflecting structural and administrative weaknesses (i.e., corruption) in the Philippine tax system.

Notwithstanding favorable trends, the Philippine economy continues to juggle extremely limited financial resources while attempting to meet the needs of a rapidly expanding population. Potential foreign investors, as well as tourists, continue to be concerned about law and order, inadequate infrastructure, and a legal and regulatory environment perceived to be rife with corruption. The banking system, while generally stable, remains saddled with rising levels of non-performing assets and awaits passage of legislation which will provide incentives and outline the regulatory framework for the creation of "special purpose asset vehicles" (or asset management companies). On the anti-money laundering front, more legislative hurdles remain for the Philippines to be removed from the Financial Action Task Force's list of "non-cooperative countries."

**QTR.-to-QTR. GDP & GNP GROWTH**  
Seasonally Adjusted Annualized Rates



## Output and Inflation

Seasonally-adjusted figures show that second-quarter Gross Domestic Product (GDP) expanded by 2.3% in real terms quarter-on-quarter, the highest seasonally-adjusted quarterly growth rate posted over the past five years. Industrial sector output (up 4.8% from the first-quarter level) put in the strongest expansion (versus 0.2% for agriculture and 2.3% for services). That performance represented the industrial sector's highest seasonally-adjusted, quarter-on-quarter expansion in more than eight years.

According to the more widely used gauge of overall economic activity — measured as the year-on-year change of seasonally-unadjusted data — real GDP grew by 4.5% during the second quarter of 2002. That was the highest year-on-year expansion logged by the domestic economy since the fourth quarter of 2000, surpassing both public and private-sector expectations of 3.8%-4.1% growth. It also surpassed the second-quarter growth rates posted by neighboring ASEAN economies. Real Gross National Product (GNP) grew by 5.2% (its highest rate of increase since the first quarter of 1998), reflecting higher workers' remittances and lower interest payments on the country's foreign debt.

On the demand side, exports and government spending helped spur second-quarter economic growth. This contrasted with the first quarter's 3.7% GDP growth performance, which was almost solely propelled by personal consumption. Merchandise exports (measured at constant prices) expanded by 10.5%, breaking from four consecutive quarters of year-on-year declines. Government spending mustered 2% growth after contracting during the previous two quarters. These combined with an acceleration in consumer spending from 3.5% growth in the first quarter to 3.8% growth in the second quarter. Personal consumption has benefited from a combination of slowing inflation, the steady flow of workers' remittances and, to some extent, the Philippines' relatively high population growth rate (estimated at 2.36% annually).

Gross capital formation — down 3.3% year-on-year during the second quarter of 2002 — declined for a third consecutive quarter but

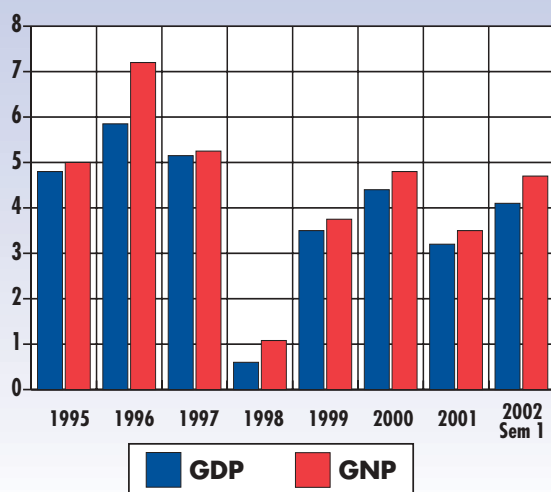
contracted less markedly than it had during the first quarter of the year (5.6%). The second quarter saw drawdowns from inventories after three consecutive quarters of net increases, offsetting the modest improvement in fixed capital investments. After five quarters of successive declines, fixed capital expenditures finally mustered a slight year-on-year increase (0.4%) on the back of a modest 2.1% expansion in construction outlays. Private construction demand posted four consecutive quarters of modest growth (averaging 3.4%). However, the construction sub-sector's overall recovery has been tempered by declines in government infrastructure spending due to budgetary constraints. The other component of fixed capital spending — i.e., investment in durable equipment — contracted by 2.1% year-on-year (posting a fifth consecutive quarter of year-on-year declines).

On the production side, the industrial and service sectors both bettered their first-quarter growth rates, making up for the slower expansion in agricultural output. The acceleration from 3.7% first-quarter to 4.5% second-quarter GDP growth mainly reflected a much-awaited rebound in industrial-sector activity. Industrial-sector output grew by 4.3% year-on-year (from just 1.3% during the first three months of 2002) and also logged its strongest performance since the second quarter of 2000. That performance mainly stemmed from the manufacturing sub-sector's 5% expansion (double the first-quarter growth rate and the highest since 2000's fourth quarter), boosted by both domestic and foreign demand. The relatively resilient service sector (up 5.5%) surpassed its first-quarter growth rate (5%) mainly on the back of the trade sub-sector's more robust expansion.

The 3.7% and 4.5% GDP growth rates during the first and second quarters, respectively, yielded a cumulative first-semester GDP expansion of 4.1%. Real GDP must grow by 3.9% during the second half of 2002 to hit at least the lower end of the economy's 4.0%-5.0% targeted GDP growth range for the full year. The second-quarter GDP expansion has greatly improved the economy's chances of achieving that target, but we believe that a number of downside risks remain. The full impact of El Niño, particularly on fourth quarter harvests, remains uncertain — potentially affecting rural incomes, considering agriculture's disproportionate 40% share of Philippine employment. Sputtering U.S. economic indicators have clouded prospects for the continued robust expansion of exports. Meanwhile, fiscal difficulties are likely to prevent the government from being a positive contributor to economic growth. Bank lending remains lethargic and spending on durable goods weak as industries continue to experience spare capacity. These uncertainties place a heavier burden on the private non-agricultural sector to sustain the economy's growth momentum in the second semester of 2002. From 3.2% GDP growth during 2001, our current estimate is for full year 2002 GDP growth in the 3.8%-4.0% range.

Year-on-year consumer price inflation averaged 3.3% during the first eight months of 2002, well below the government's downward-revised 4.5%-5.5% (originally 5.0%-6.0%) targeted range for the full year. Overall, generally stable food-supply conditions, a broadly stable exchange rate, under-utilized capacities, and still high unemployment tempered increases in general price levels. Inflation had slowed to 2.6% in July (the lowest year-on-year rate registered since February 2000) but accelerated somewhat to 2.9% in August

**REAL YEAR-TO-YEAR GDP & GNP GROWTH**



(attributed mainly to typhoon-related pressures on the heavily weighted food index and upward adjustments in domestic fuel prices and utility rates). The potential adverse impact on food prices of El Niño and resurgent uncertainty over the direction of world oil prices as tensions escalate between the United States and Iraq have raised the specter of upward price pressures in the months ahead. Prices in the coming months will also be coming off a relatively lower 2001 base. Nevertheless, based on the numbers thus far, we expect average year-on-year inflation to end 2002 below the lower end of the government's 4.5%-5.5% targeted range.

A reduction ordered by President Macapagal-Arroyo of the National Power Corporation's (NPC) controversial "purchase power cost adjustment" (PPCA) effective May 8, 2002 has also helped provide electricity-cost relief to consumers in recent months. The PPCA is a cost-recovery mechanism passed on to consumers under contracts between NPC (the government's power generating company) and independent power producers (IPPs) providing for guaranteed contracted-capacity purchases from the IPPs. Most of these contracts were approved during the Ramos Administration to address the Philippine electricity crisis of the early 1990s. While easing the strain on consumers, the move has raised concerns over the already shaky financial position of the debt-burdened state firm and the potentially adverse impact on the national government's fiscal position as guarantor of NPC debt.

## Labor and Employment

The Philippine unemployment rate averaged 11.8% in the first three quarterly surveys (i.e., January, April and July) conducted thus far during 2002. That average rate was higher than 2001's comparable 11.6% figure. Unemployment remained high despite the acceleration in economic activity.

The most recent (i.e., July 2002) survey estimated the Philippine unemployment rate at 11.2%, up from 10.1% as of July 2001. The number of employed persons as of July 2002 increased by 2.8% (823,000) year-on-year. However, the Philippine labor force expanded at a faster 4.2% clip (equivalent to 1.35 million new labor force entrants). The service sector absorbed the largest share of the overall employment expansion, followed by agriculture. Industrial

employment remained sluggish despite the sector's stronger output, reflecting spare capacity and continuing moves to consolidate operations. Some of the job opportunities also went to more hours of work for the underemployed rather than to new hires, bringing down the underemployment rate from 17.7% (July 2001) to 17.1% (July 2002).

Underemployment is more severe in rural areas. According to the July 2002 labor force survey, rural workers comprised the majority of the underemployed (62% or 3.2 million). The underemployment rate was 20.1% in rural areas versus 13.8% in urban areas.

According to statistics as of September 15, 2002, notices of strikes/lockouts increased 23%, with a total of 575 notices (involving 114,217 workers) filed in 2002 compared to 469 notices (involving 106,285 workers) in 2001. However, the National Conciliation and Mediation Board (NCMB) reported that fewer strikes were actually declared in 2002 (28) versus 2001 (33), although more workers (9,606) were affected than during the same period last year (5,783).

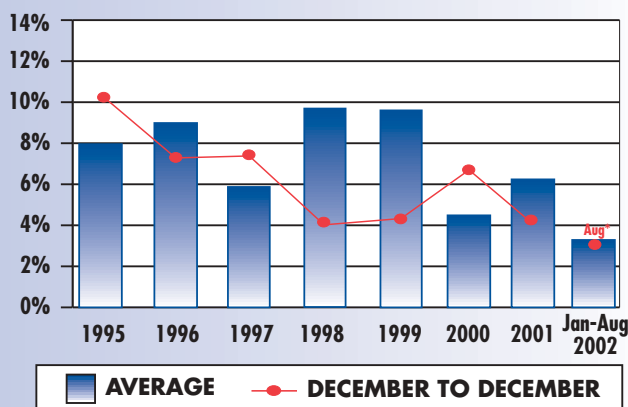
According to the latest (year 2000) Occupational Injuries Survey (OIS) released in May 2002 by the Department of Labor and Employment's (DOLE) Bureau of Labor and Employment Statistics (BLES), 69,208 injuries were reported in non-agricultural establishments with 20 or more workers in the year 2000. The manufacturing sector accounted for 46,955 or 67.8 %, followed by hotels and restaurants with 8,217 or 11.9 %.

In August, Labor Secretary Patricia Santo Tomas announced she would implement reforms aimed at cutting graft and corruption at the DOLE. Reforms were drafted soon after the Secretary received reports of anomalies at the National Labor Relations Commission (NLRC) and the Philippine Overseas Employment Administration (POEA). DOLE says it will seek to impose stricter rules and regulations on recruitment agencies, and seek harsher penalties against erring recruitment firms.

In June, Secretary Santo Tomas, Education Secretary Raul Roco and U.S. Deputy Undersecretary for International Labor Affairs Thomas Moorhead signed a collaborative Letter of Intent on a Timebound Program to Eliminate the Worst Forms of Child Labor in the Philippines. The Letter commits both countries to work together on a number of initiatives to remove children from work, provide them access to quality and relevant education and offer families viable economic alternatives to child labor.

Under the terms of the Letter, the U.S. Department of Labor (USDOL) will provide \$10 million for child labor action programs and education initiatives — \$5 million through the International Labor Organization's International Program on the Elimination of Child Labor (ILO-IPEC) and \$5 million for a competitively-bid Child Labor Education Initiative to be funded by the USDOL. The Timebound Program will be implemented in communities with a high incidence of child labor, with a particular focus on children in mining/quarrying, domestic work, pyrotechnics production, agriculture plantations, commercial sexual exploitation, and deep-sea fishing.

**CPI YEAR-TO-YEAR CHANGE**



## Financial Markets

The Philippine Monetary Board — the highest policy-making body of the Bangko Sentral ng Pilipinas (BSP, the central bank) — cut overnight borrowing and lending rates by 25 basis points on March 15, 2002. That cut followed earlier 25 basis-point reductions on January 18 and February 15 — prompted by slowing inflation, receding foreign exchange pressures, and positive U.S. economic indicators. The Monetary Board has slashed overnight policy rates by 200 basis points since October 2001 and by 800 basis points since December 2000. BSP policy rates currently stand at 7.0% (borrowing) and 9.25% (lending), the lowest they have been in a decade. The Monetary Board (which shifted to an inflation-targeting framework in 2002) has since adopted a neutral policy stance. Monetary officials cited deepening fiscal difficulties, downward pressures on the foreign exchange rate, uncertainties over the full impact of El Niño, resurgent uncertainties over the direction of world oil prices, and worries over U.S. and global economic prospects.

Responding to the BSP's monetary-easing signals and favorable inflation news, Treasury bill rates continued easing through the first four months of 2002 during the government's primary-market auctions. Opening the year at 8.297%, the loan-benchmark 91-day bills had softened to a historic low of 4.229% by the last auction of April. With bank lending still struggling to recover, the Treasury bill rate declines also reflected a dearth of relatively risk-free investment alternatives. However, bid rates have since inched up despite favorable inflation numbers and excess financial system liquidity, mainly in reaction to emerging fiscal difficulties. By the end of August 2002, the 91-day bill had moved up to 4.978%, up 74.9 basis points from end-April. The 182-day bills and 364-day bills inched up by wider margins (108 and 83.5 basis points, respectively) over that same period, indicating a preference for shorter-term tenors. Consummated rates would have been higher if not for the government's intermittent bid rejections. Nevertheless, average T-bill rates are expected to end 2002 at historic lows. The benchmark 91-day tenor averaged 5.542% during the first eight months of 2002 (comparing favorably with the previous 9.425% record posted in 1973).

Commercial bank lending rates tapered through May but began moving up with T-bill rates in June. Average prime loan rates softened from 11.646% in January to 7.725% in May and then inched

up in subsequent months to a July average of 7.934% and August average of 8.030%. Average non-prime rates tapered from 13.265% (January 2002) to 9.305% (May 2002) but had increased to 9.675% by July and to 9.779% by August. Overall, however, the cost-of-financing has come down significantly. Prime rates and non-prime-rates averaged 8.957% and 10.622%, respectively, during the first eight months of 2002 — comparing favorably with 2001's full year averages of 13.668% (prime) and 15.309% (non-prime).

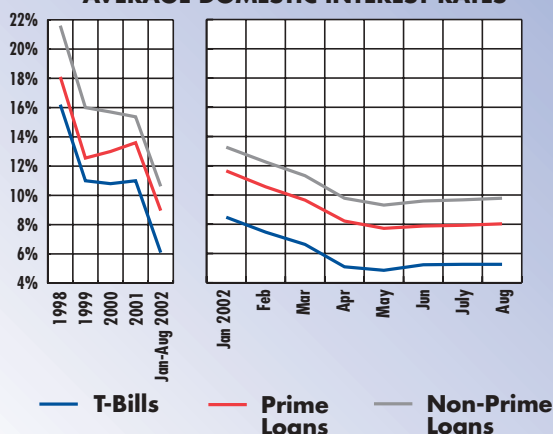
The government hopes that lower domestic interest rates will help improve the quality of banks' loan portfolios and spur bank lending. However, the overhang of non-performing assets (NPAs, the sum of non-performing loans and foreclosed assets) and the accompanying need to beef up loan-loss reserves have inhibited more aggressive credit growth thus far, constrained capital build-up, and exerted pressure on banks' bottom lines. As of July 2002, outstanding loans of the commercial banking system (inclusive of inter-bank credits) had expanded by just 2.5% year-on-year. Excluding inter-bank lending, outstanding loans declined by 2.0% from July 2001.


As of end-July 2002, the commercial banking system's NPAs had expanded by 8.0% (P33.8 billion) year-on-year and by 4.0% (P17.5 billion) from end-2001 to equal 14.6% of gross assets (versus the 13.8% and 14.3% ratios as of July and December 2001, respectively). The nominal level of NPLs increased by 2.8% (P7.7 billion) year-on-year and by 1.5% (P4.2 billion) from end-2001 to equal 17.8% of banks' aggregate loan portfolios (versus the July 2001 and end-2001 NPL ratios of 17.7% and 17.4%, respectively). June and July saw month-on-month nominal declines in non-performing loans but a continued expansion in asset foreclosures. Foreclosed assets increased by 17.9% (P26.1 billion) year-on-year and by 8.4% (P13.3 billion) from the end-2001 level. Restructured loans (without which NPL ratios would be higher) grew by 11.3% (P12.2 billion) and by 6.2% (P6.9 billion) from end-July 2001 and end-2001, respectively — rising to 7.5% of outstanding commercial banking system credits (versus end-July 2001's 6.9% and end-2001's 7.0% ratios). As of end-July 2002, non-performing loans, foreclosed assets, and restructured loans stood at 6.0, 12.4, and 9.3 times their respective mid-1997 (i.e., pre-Asian crisis) levels.

Generally healthy capital-adequacy ratios and increases in loan-loss reserves have helped temper systemic risks. Computed according to the recently-adopted Basle Capital Accord formula, Philippine commercial banks' average capital-adequacy ratio has been estimated at over 14%, better than the BSP's 10% statutory floor and the 8% internationally-accepted standard. Loan-loss reserves increased from 45.2% of non-performing loans as of end-2001 to 48.1% of non-performing loans as of end-July 2002. Still, it should be noted that significant troubles at any major commercial bank could lead to a swift reversal of depositor sentiment, and the resulting strain on the system to service withdrawals could be substantial. Some large banks are saddled with non-performing ratios exceeding the industry average and several banking institutions (5 commercial banks, 33 thrift banks, and 170 rural banks) remain short of BSP-prescribed minimum capitalization levels.

A number of banks are actively exploring setting up or using the services of asset management companies (AMCs) to clean up their non-performing accounts, some with U.S. firms such as Lehman Brothers and Cerberus. According to BSP officials, one large

**AVERAGE DOMESTIC INTEREST RATES**





commercial bank reported recently that it had sold NPLs (with total unpaid principal of over P16 billion) to a locally incorporated asset management company (AMC) jointly owned by foreign and local investors. However, other negotiations have yet to be finalized and/or consummated pending passage of priority legislation which would promote the creation of “special purpose asset vehicles” (SPAVs or AMCs) and establish the regulatory and operational framework for such entities. The Lower House passed its version of a SPAV bill in March 2002. The Senate — deadlocked over contentious provisions dealing with debtor-versus-creditor rights — failed to pass the measure before the Philippine Congress adjourned for a three-week recess on September 5.

The BSP continues to encourage consolidation in the banking system through time-bound incentives and a temporary moratorium (since September 1999) on the issuance of new bank licenses. From March-August 2002, there were 3 completed mergers involving 3 thrift banks, 2 rural banks, and 1 non-bank financial intermediary. This brings to 7 cases the acquisitions and/or mergers implemented since the beginning of 2002. The BSP has approved 44 acquisitions and/or mergers thus far since the Asian crisis (involving 29 commercial banks, 26 thrift banks, 13 rural banks, and 7 non-bank financial intermediaries) — 34 cases of which had been completed as of end-August 2002. The inability of a number of banking institutions to meet minimum capitalization levels suggest there is room for further consolidation. About 9 acquisition and/or merger proposals are pending BSP approval.

In terms of number, smaller-capitalized thrift and rural banks (which constitute less than 10% of overall banking system assets) have been more severely affected by the shakeout. Eight more rural banks closed during January-August 2002 — for a total of 129 bank closures since mid-1997 (involving 2 commercial, 14 thrift, and 113 rural banks). The Bangko Sentral ng Pilipinas continues to work to fully implement the General Banking Law of 2000, which is geared towards strengthening transparency, bank management, and bank supervision. The BSP is working, among others, to develop an efficient consolidated-monitoring system for banks and their subsidiaries and affiliates, as well as to enhance risk-based management and supervision systems. Nevertheless, the circumstances surrounding bank closures highlight remaining impediments to more effective bank supervision and timely intervention — including stringent bank secrecy laws and obstacles for bank regulators to examine banks at will and to reverse consummated transfers of bank ownership to questionable parties.

On the anti-money laundering front, the Financial Action Task Force (FATF) decided to retain the Philippines on its list of “non-cooperative countries” during its June 2002 plenary meeting. The Philippines passed an Anti-Money Laundering Act (AMLA) in September 2001 and released implementing rules and regulations in March 2002. However, the FATF reiterated a number of important concerns about the law (including the high \$80,000 threshold for covered transactions, the apparent lack of explicit authority for the BSP to monitor for anti-money laundering compliance; and restrictions to accessing accounts, investments and deposits opened prior to effectivity of the AMLA). Officials in the government’s Anti-Money Laundering Council announced that the Philippines had a year to make the necessary legislative amendments to meet FATF concerns or risked facing FATF countermeasures. The U.S.

government has been providing training and technical support to assist the Philippines in implementing the Anti-Money Laundering Act.

The stock market began the first few months of 2002 on a positive note, with the Philippine Stock Price Index (Phisix) closing on February 19 at 1,469.07, its highest since mid-June 2001. By August 7, however, the Phisix had closed at 1,019.16 (the lowest since mid-November 2001). Although there were occasional slip-pages, the Phisix generally had managed to close above the 1,400 mark up to mid-April. However, the market began losing steam on a combination of external and domestic news and developments. These included worsening fiscal difficulties, domestic interest-rate increases, downward currency pressures, less encouraging U.S. economic indicators and jitters arising from a string of U.S. accounting scandals, and continuing peace-and-order concerns. Occasional political surprises (such as the Senate “coup” staged by opposition senators in early June and cabinet resignations) added to the overall uncertainty. Foreign investors shifted from being net buyers of Philippine equities during the first quarter of 2002 to being net sellers from April-August.

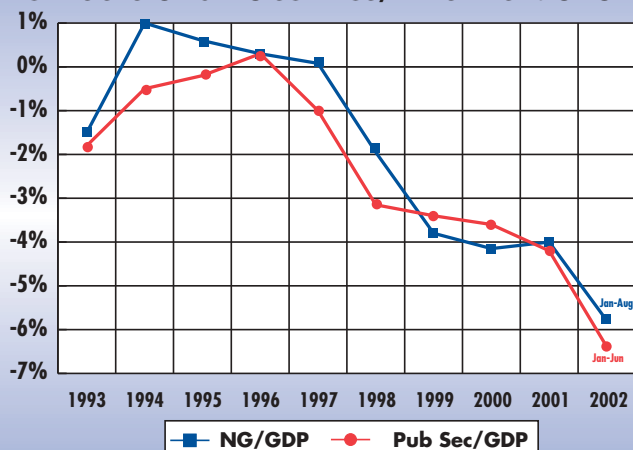
Although the stock market is in the doldrums, there have been a number of positive developments on the policy side which, if properly implemented, should help improve longer-term market confidence. The Securities and Exchange Commission (SEC) issued a Corporate Governance Code in March 2002 and has required publicly listed companies, investment houses, pre-need and insurance firms, financing companies, and brokerage houses to submit their respective governance manuals for SEC review for implementation in January 2003.

In June 2002, the SEC also issued a memorandum circular on “Accreditation and Reportorial Requirements of External Auditors of Public Companies”, which will cover audited financial statements for the fiscal year ending June 2003 and thereafter. The circular seeks, among others, to institute a system of accreditation for external auditors of companies that issue securities to the investing public. It also outlines requirements and procedures for disclosing “material information” to the SEC, requiring that client-auditor contracts contain a specific provision protecting external auditors from civil, criminal or disciplinary proceedings for reporting material findings to the regulatory authority.

## *Fiscal Performance*

The need to address chronically problematic government finances remains a pressing challenge in an environment of accelerating global competition and intensifying demands for the Macapagal-Arroyo administration to deliver on its anti-poverty promises. By July 2002, the national government’s P133.1 billion fiscal deficit had breached the government’s targeted full-year ceiling of P130 billion. By the end of August, the national government’s cumulative deficit had widened further to P144 billion. That budget gap would have been larger if higher-than-expected non-tax inflows (mainly from Treasury operations and government fees and charges) had not partially made up for weak tax collections. On the expenditure side, substantial interest savings helped keep overall disbursements more or less under control even as the government opted to accelerate

## PUBLIC SECTOR & NG SURPLUS/DEFICIT AS % OF GDP



settlement of accounts payable and agricultural infrastructure projects (partly in preparation for the El Niño phenomenon) during the first half of the year.

As of August 2002, eight-month revenues were nearly 21% (P94.5 billion) short of the government's interim nine-month program. That gap is unlikely to be covered by September collections, considering that actual revenue inflows averaged less than P46 billion monthly during the January-August period. As of August, the Bureau of Internal Revenue's (BIR) collections were more than 23% (P77.7 billion) short of the agency's nine-month collection goal. Actual BIR collections averaged less than P32 billion per month during the first eight months of 2002. More telling, BIR collections — which contracted by 2% year-on-year — did not even manage to keep up with inflation. Meanwhile, Bureau of Customs (BoC) collections as of August 2002 were nearly 27% (P22.3 billion) short of the agency's nine-month target. Actual January to August BoC collections averaged less than P8 billion monthly.

The BIR cited the delayed recovery of the manufacturing sector, weak inflows from finance-related taxes (reflecting lethargic lending activity and lower-than-forecasted interest rates) and a slowdown in excisable-goods output as among the major causes of its weaker-than-expected performance. The BoC, for its part, mainly attributed its collection shortfall to a stronger-than-expected peso and the higher-than-projected share of non-dutiable imports. However, the unimpressive tax-take also significantly reflected structural problems and long-standing weaknesses in tax administration (including many reports of corruption and tax fraud). The BIR's performance has been of special concern as collector of nearly 80% of national government taxes. Overall, the Philippines' tax effort (i.e., the ratio of taxes to GDP) has deteriorated — declining from a peak of 17.1% in 1997 to 13.5% in 2001. A further slippage is likely this year based on collections thus far.

The government's worrisome fiscal performance has triggered concern over the government's ability to narrow its fiscal deficit from 4.0% of GDP (P147 billion) to 3.3% of GDP (P130 billion) in 2002, and to balance the budget by 2006. Government fiscal planners nevertheless maintained the 3.3% deficit-to-GDP ratio as a

"fighting target" and hope to contain the full year budget gap through a combination of tax-administration improvements, larger non-tax inflows, and spending control in subsequent months. Reining in the deficit will test, among others, the government's ability to generate an estimated P22 billion from tax-administration reforms during the year.

Depending on how quickly revenues catch up during the rest of 2002, the government faces yet another year of tough fiscal juggling. The Macapagal-Arroyo administration has shown a great resolve to restore fiscal responsibility, successfully reining in disbursements to keep the 2001 fiscal deficit under control and earning sovereign-ratings upgrades from international credit-rating agencies for its efforts. However, these efforts were not without important tradeoffs, with the challenge of making ends meet compounded by the relatively large (roughly 70%) share in the budget of "non-discretionary" items (i.e., personnel costs, debt servicing, legally mandated transfers to local government units). Already struggling with an inadequate infrastructure, fiscal austerity forced a 13% contraction in infrastructure outlays during 2001. Infrastructure spending sputtered to 2% of GNP last year, the lowest ratio recorded since the late 1980s. Squeezing expenditures to make up for poor revenues will not be conducive to sustainable long-term growth, global competitiveness, and poverty alleviation.

The government has stated its determination to balance the budget by 2006 but has had to revisit interim, short-term goals. Originally battling for gradually declining deficits starting in 2002, the targeted 2003 fiscal deficit was raised recently from P98 billion to P142 billion. Although higher in nominal terms, the government hopes to maintain the same deficit-to-GDP ratio envisioned this year. As described below, however, the higher deficit ceiling will not accommodate a substantial expansion in 2003 expenditures because of limited financial resources.

On August 21, the executive branch submitted a P804 billion budget (obligation basis) for congressional approval. Just 4.5% higher year-on-year in nominal terms, the proposed budget translates to practically zero growth in real terms (assuming government expectations of 4% to 5% inflation). Our estimate of "non-discretionary" expenditures shows that these items will eat up all of the planned year-on-year budget increase, leaving a smaller allotment than in the 2002 budget for "discretionary" but essential expenditures. The 2003 expenditure plan barely allows for any expansion in infrastructure investments (which could potentially suffer from further cuts depending on next year's revenue performance). An overview of the proposed 2003 budget by broad sectoral allocation also demonstrates the tradeoffs necessitated by extremely limited financial resources and the additional pressures posed by the national government's debt accumulation (estimated at close to 70% of GDP as of mid-year). Economic services, social services, general public services, and defense will all end up with smaller shares of the 2003 budget pie than in 2002, versus a larger percentage allotted for debt-service requirements. The 2003 expenditure plan allows very modest (i.e., less than 1%) year-on-year growth for spending on education and manpower development, and none for health services even as the annual population growth rate proceeds at a 2.36% clip.

According to preliminary government estimates, the consolidated public sector (which includes government-controlled firms, social security agencies, local government units, and the Bangko Sentral ng Pilipinas) recorded a P118.6 billion deficit during the first semester of 2002 (equivalent to 6.4% of GDP). That deficit exceeded the P78.3 billion (4.1% of GDP) January-June program, mainly because of the national government's wider-than-envisioned budget gap. The current full year 2002 program is for a consolidated public sector deficit of P178.1 billion — which represents a 9.7% year-on-year expansion from 2001's P162.7 billion level but seeks to maintain a 4.5% deficit-to-GDP ratio.

The larger consolidated public sector deficit (CPSD) projected for 2002 mainly reflects smaller surpluses expected from social security institutions and larger operating deficits expected from non-financial government corporations. The challenge is for the government to expeditiously implement the restructuring of the electric sector and privatization of the financially strapped National Power Corporation under the provisions of the Electric Power Industry Reform Act. Another important challenge the government faces is addressing threats to the long-term viability of state-run pension funds arising from imbalances between contributions received and benefits paid.

According to recent studies, about half of potential internal-revenue and customs taxes escape collection, confirming an undeniably pressing need for more aggressive improvements in administration and governance at the tax collection agencies. The government has embarked on a high-profile effort to demonstrate its commitment to instituting good governance and stepping up administrative reforms and monitoring efforts to pursue erring taxpayers. These efforts have begun to yield positive results over more recent months. Executive Order No. 114, signed on July 29, 2002 and targeted for implementation by early 2003, provides for the reorganization of the BIR. A bill has been submitted to the Philippine Congress eventually seeking to transform the BIR with a performance-based Internal Revenue Management Authority (IRMA). Such reforms, however, have already met with strong resistance. Former BIR Commissioner Rene Bañez announced his resignation on August 19, blaming saboteurs and vested interests within the agency for deliberately depressing tax collections; his successor, Guillermo Parayno, has pledged to continue the reforms advocated by Bañez. On the expenditure side, personnel costs alone eat up more than a third of the budget pie but previous efforts pushing for legislation to rationalize the government bureaucracy did not prosper. These suggest that achieving long-term fiscal viability will require especially strong political will.

## Foreign Debt and Debt Service

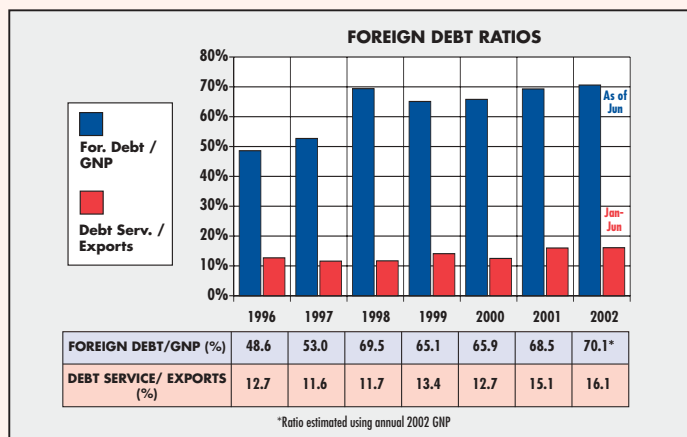
The national government's current 2002 borrowing program calls for \$3.1 billion in external financing, equivalent to 43% of total 2002 foreign and domestic borrowing requirements (up from 2001's 25% ratio). As of August 2002, the government had raised about \$2.6 billion (84%) of its full year external financing program, \$2 billion from commercial borrowings and \$600 million from official

development assistance (ODA) loans. The government hopes to raise the \$500 million balance during the rest of 2002 by drawing on additional ODA funding commitments. Depending on how quickly the ODA loans can be disbursed, however, the government has indicated that it may borrow more from the international bond market.

To support low domestic interest rates, the national government's 2003 budget-financing program envisions \$3.5 billion from external funding sources, up 12.9% from 2002 and equivalent to a higher 56% share of total foreign and domestic financing needs for that year. Of the \$3.5 billion target, the government hopes to raise \$2.3 billion (66%) from voluntary capital markets, with the remaining \$1.2 billion dependent on the government's ability to improve utilization of official development assistance loans. While there are emerging improvements, ODA implementation bottlenecks have been a long-standing concern of foreign donors. The government usually has fallen short of utilizing targeted levels of ODA in its annual budgets. The funds are held up for various reasons (including legislative roadblocks, lack of counterpart financing, right-of-way problems, and bureaucratic delays).

According to the most recent quarterly estimates, the Philippines' recorded external debt (based on foreign credits approved or registered with the Bangko Sentral ng Pilipinas) stood at \$54.9 billion as of end-June 2002. That level represented a 7.9% (\$4 billion) increase year-on-year, 4.8% (\$2.6 billion) growth from end-2001, and a 2.8% (P1.5 billion) expansion from March 2002. The quarter-to-quarter expansion reflected some \$2 billion in upward revaluation adjustments on third-currency debt reflecting a weaker US\$ during the period. Net of revaluation adjustments, outstanding external liabilities would have declined by more than \$500 million quarter-on-quarter because of net repayments on foreign loans and higher residents' holdings of Philippine debt papers issued offshore. The share of medium and long-term loans (with a weighted average maturity of 16.2 years) increased from 88.4% of the external debt stock as of end-2001 to 89.4% as of mid-2002.

By type of creditor, 45.3% of external obligations as of the first half of 2002 were owed to official lenders (defined as multilateral financial institutions, and foreign governments and their export credit agencies) at generally more concessional terms. Bondholders accounted for 27.1%, banks and financial institutions for 22.8%, and other creditors (mainly suppliers) for 4.8% of the foreign debt



stock. The share of debt owed to official lenders has been declining over the years, from more than 53% as of end-1996 (just before the Asian crisis) to 45.3% as of end-June 2002. Conversely, the cumulative share of other creditors to the foreign debt stock has risen, from 47.3% to 54.7% over that same period. Outstanding commercial credits increased much more rapidly (51.6%) than official loans (12.7%) between end-1996 and end-June 2002. Looking forward, an increasing reliance on commercial credits increases the Philippines' vulnerability to periodic jitters over emerging-market debt. Accessing commercial borrowings at affordable rates in potentially more competitive global financial markets will depend on maintaining macroeconomic stability and a stable sovereign credit-ratings outlook from international rating agencies.

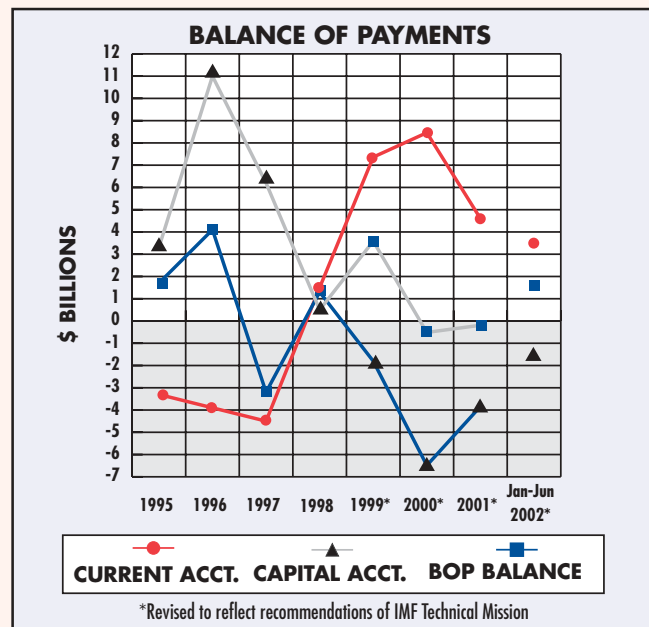
The ratio of foreign debt to GDP has risen to more than 70% from just over 50% in the mid-1990s as debt accumulation outpaced the expansion in nominal economic output. However, the foreign debt service burden — measured as the ratio of debt service payments to export, services, and income receipts — remains manageable, reflecting the bias for medium- to long-term loans and the substantial share of official borrowings. Nevertheless, the foreign debt service burden increased from 12.5% in 2000 to 16% during 2001 — the highest debt service ratio recorded since the mid-1990s. Higher payments (up by 8.3%, \$510 million) combined with depressed export, service and income inflows (which slumped by 15.6%, \$7.7 billion) year-on-year. The foreign debt service ratio ranged from 11.3% to 13.8% from 1996-2000.

More recent estimates placed the foreign debt service burden from January-June 2002 at 16.1%. Government estimates suggest that the Philippines faces higher debt service obligations for 2002 as a whole which, unless restructured or compensated by higher export and income receipts, could mean a further rise in the full year 2002 debt service ratio. These developments suggest vulnerabilities to unexpected reversals in export markets, highlighting the importance of addressing the weak state of government revenues and attracting more sustainable, non-debt sources of balance of payments financing.

## Merchandise Trade and Balance of Payments

Reflecting a larger current account surplus and a smaller net outflow in the capital and financial account, detailed balance of payments (BOP) statistics through June 2002 showed the Philippines' BOP position at a \$1.7 billion surplus — a reversal from the previous year's \$606 million first-semester deficit. The current account more than doubled from \$1.4 billion (January-June 2001) to \$3.4 billion (January-June 2002), while the capital and financial account deficit narrowed from \$2.2 billion to \$1.5 billion.

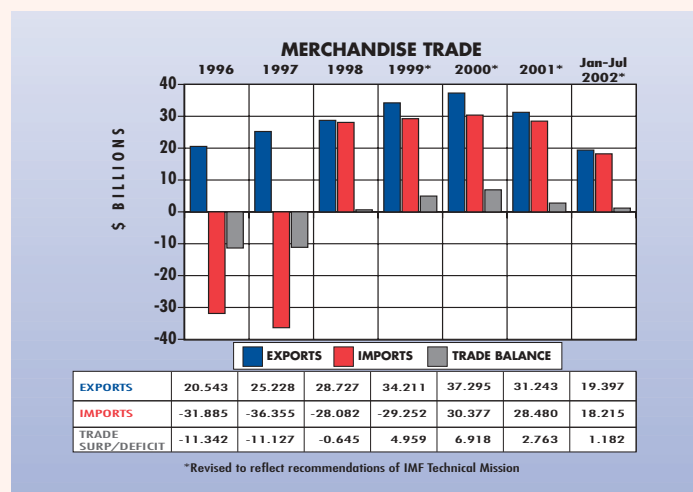
The wider January-June 2002 current account surplus mainly reflected a larger positive balance in the income account. A smaller trade-in-services deficit and somewhat wider merchandise trade surplus also contributed. The income account surplus — which more than doubled from \$1.3 billion to \$2.8 billion — benefited from the robust 43.2% expansion in overseas Filipino workers' remittances to \$4.1 billion (from \$2.5 billion) and, to a lesser extent, from smaller



net outflows for interest payments (reflecting softer global interest rates). While still in the red, the trade-in-services account narrowed to a \$482 million net outflow versus January-June 2001's \$934 million deficit. However, that improvement was not a function of stronger revenues but, rather, of payments (down 23.9) declining at a faster rate than receipts (which contracted by 11.1%) — especially true for transportation, travel, and professional and technical services.

A reversal in net portfolio investments from a \$271 million net outflow to a \$1.4 billion net inflow was behind the narrower capital and financial account deficit during the first half of 2002. That reversal mainly reflected \$1.3 billion of net foreign investments in foreign-denominated bonds issued by the government for budget financing and international-reserve management purposes. Some improvement in net foreign investments in the local equities market also played a role in increasing portfolio investment flows.

On the other hand, net inflows of foreign direct investments narrowed from January-June 2001's \$1.4 billion surplus. Although new direct investments nearly tripled to \$749 million (concentrated in \$560 million worth of shares purchased by a Japanese firm in the



Philippines' largest, local brewery company), these were offset by smaller reinvested earnings and inter-company loans, as well as somewhat higher equity investments abroad by Philippine residents. The wider portfolio investment surplus also helped compensate for a higher net outflow in the "other investment" account resulting from lower net inflows of short-term trade credits and larger deposits abroad by resident banks (to cover client's import payments and to diversify portfolios).

According to more recent estimates through July 2002, the Philippines' trade-in-goods surplus widened from \$853 million (January-July 2001) to \$1.2 billion (January-July 2002) as export receipts (up 7.5%) outpaced import payments (up 5.6%). Full-year 2001 merchandise exports and imports contracted by 16.2% and 6.2%, respectively, in 2001. Export receipts rebounded in April (23.2%), May (13.6%), June, and July (23.4%) following 14 consecutive months of negative year-on-year growth, nudging up the seven-month export growth rate to positive territory. The export expansion reflected improved levels of intra-Asia trade. Exports to the U.S. and Japan (which together generate more than 40% of annual export receipts) contracted by 6.6% and 5.1%, respectively. The contraction of Philippine exports to the U.S. has nevertheless eased compared to the 21% year-on-year slump seen during 2001. January-July revenues from shipments of electronics and telecommunications parts and equipment (which account for over 60% of Philippine export receipts) increased 9.2% year-on-year. The import bill logged consecutive months of positive year-on-year growth from February-July 2002 (peaking at a 18.8% expansion in April), reflecting low inventory levels and the import-dependent nature of the country's major export products.

Current developments point to a BOP surplus for the 2002 full year, breaking from consecutive deficits in 2000 (\$513 million) and 2001 (\$192 million). Still, some uncertainties remain over the direction of the BOP in subsequent months. Unless the government decides to borrow more (possibly to pre-finance the 2003 budget), the substantial boost provided by front loading government borrowings in the earlier months of 2002 may be eroded as the year progresses. Net inflows of foreign direct investments have yet to expand while more recent uncertainties in the sputtering stock market may sideline non-debt portfolio capital flows. After the initial euphoria, deepening worries over U.S. and global growth prospects in the midst of wilting U.S. economic indicators have increased uncertainty over the sustainability of the Philippines' robust April-July export expansion. Although details were not yet available when this issue of the *Philippine Economic Outlook* went to print, preliminary

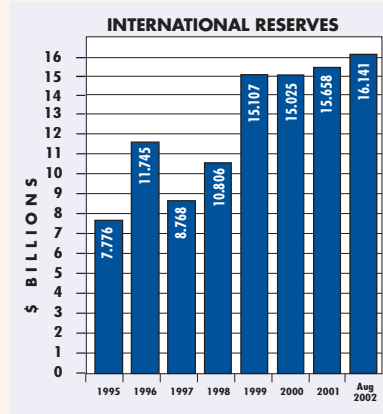
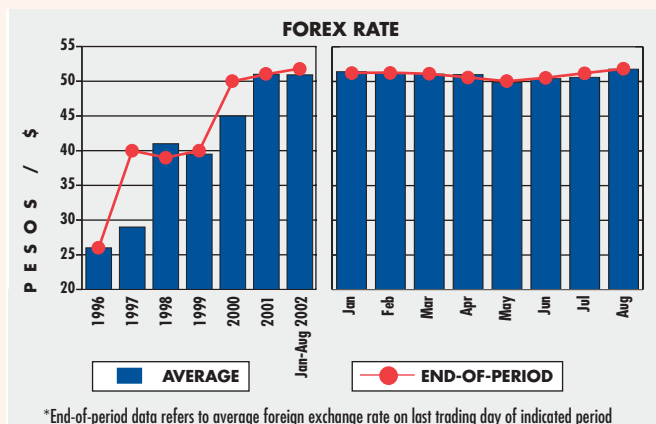
estimates (computed from the change in BSP net international reserves) suggest that the BOP surplus had narrowed from \$1.7 billion as of June to less than \$1.3 billion as of August.

## Foreign Exchange Rate and International Reserves

The peso strengthened during the first five months of 2002 as a number of positive developments on the local front (among them news of a controlled 2001 budget deficit, high international reserve levels, and sovereign-outlook upgrades) combined with generally stronger regional currencies. The peso hit an inter-bank, intra-day trading high of P49.28/US\$ on May 20, the strongest intra-day rate recorded since April 2001. However, the peso began changing direction in late May, breaching the P51/US\$ level by late July. By mid-August, intra-day trades were occasionally breaching the P52/US\$ mark, hitting an intra-day low of P52.35/US\$ on August 26 (the lowest intra-day rate recorded since mid-August of the previous year).

The peso exhibited stronger downward pressure than regional counterparts after May as the seasonally heavy third-quarter import season combined with worries over the government's increasingly problematic fiscal situation and, considering the Philippines' relatively heavier dependence on oil imports, escalating jitters over U.S.-Iraq tensions. Intermittent political uncertainties (such as the attempted opposition-led senate coup in early June and subsequent cabinet resignations) plus persistent peace-and-order worries also did not help the local currency. The peso strengthened somewhat during the last few trading days of August, tracking regional currency movements and reacting positively to better-than-expected, second-quarter GDP results. The exchange rate closed August at P51.840/US\$, 0.4% weaker than at the end of 2001 (P51.665). Overall, the Philippine currency averaged P50.922/US\$ during January-August 2002, 0.8% weaker than 2001's comparable eight-month rate (P50.644/US\$). Provided there are no severe external and/or domestic shocks, our current reading is for a relatively modest peso depreciation to an average full-year 2002 rate of between P51.50-P51.75/US\$ (from P50.993/US\$ in 2001).

BSP gross international reserves, which received a late-year 2001 boost from foreign credits, continued to rise with new foreign-borrowing proceeds during the first quarter of 2002. Relatively heavier net foreign exchange purchases from the banking system also contributed as the monetary authority moved to take advantage



of a stable peso to beef up its international reserve cushion. By the end of March, the BSP's buffer had increased to an all-time high of nearly \$17.4 billion — up by 10.9% (\$1.7 billion) quarter-on-quarter and 18.3% (\$2.7 billion) year-on-year and equivalent to 5.6 months' worth of trade, service, and income payments. However, that level tapered over subsequent months to settle at \$16.1 billion by the end of August (equivalent to 5.2 months' worth of import cover), reflecting maturing BSP and public sector obligations and a slowdown in foreign borrowings.

The BSP's end-August GIR cushion equaled 139% of public and private sector debt due in the next twelve months, down from March 2002's 149% peak but up from end-2001 (130%). Considered as "secondary reserves", the BSP estimated that banks' foreign currency deposit units (FCDUs) had about \$12.5 billion in deposits as of July 2002, almost 96% of which represented deposits of Philippine residents.

## Special Feature: Electricity Sector Reform

### Context

In the early 1990s the Philippines experienced severe power shortages, resulting in frequent brownouts. To attract investment in the power sector in this challenging environment, the government signed contracts with Independent Power Producers (IPPs) that guaranteed returns to investors and provided sovereign guarantees to ensure payment. At that time, not anticipating the financial crisis of 1997, the Philippine Government projected increases in energy demand that still have not yet materialized. Moreover, in recent years, the state-owned National Power Corporation's (NPC) capital development and operation expenditures have been financed through international bond offerings and/or by loans from the national government. Today, as a result of both these developments, electricity costs are relatively high, and the NPC remains saddled with heavy debt. In fact, until recently mandated price cuts took effect, electricity costs in the Philippines were among the highest in Asia, second only to rates in Japan and Hong Kong.

To address the problems of debt burden and high electricity costs, the Philippines enacted the Electricity Power Industry Reform Act in 2001, aimed at restructuring the power sector and privatizing current assets. (The Philippines is the first country in Asia to have enacted such a comprehensive power sector reform law.) The Act aims to reduce electricity rates by increasing competition in the generation and retail sale of electricity and to establish a fair and effective regulatory commission.

### *Electric Power Industry Reform Act*

#### The Act

- privatizes state-owned generation plants and transmission service operations

- provides for the development of competitive markets for generation and retail service
- creates the following potential investment opportunities in the Philippines: Transmission Operations; Generation Assets; Retail Electricity Supply; "Missionary" Electrification Projects; and Financing of Government Liabilities.

Specifically, this new regulatory framework:

- creates the independent National Transmission Company (TRANSCO) which cannot have any interest in a generation company or distribution utility — a key element for the successful development of competitive generation markets.
- privatizes the National Power Corporation's generation assets through open and transparent public bidding, with 70% scheduled to be sold within three (3) years and all disposable assets to be sold within eight (8) years.
- provides for the separation of the distribution utility, a vital step in promoting competition.
- provides safety nets to mitigate any difficulties that may be caused to certain customer classes in the transition from regulated, bundled electricity service (e.g., a tariff that includes all elements of generation, transmission and distribution) to competition in unbundled segments.

### *Philippine Power Industry: Current Issues*

#### Independent Power Producers Contract Review

The Electric Power Industry Reform Act mandates review of contracts for "onerous" provisions. Pursuant to this requirement, a Government review committee found that only 6 of 35 IPP contracts passed muster, that is, presented no legal, financial or policy issues. The committee also issued a press release identifying five foreign power companies as having the most egregious legal or financial problems. The power industry did not participate in the review process and was not informed of the criteria used by the committee to assess the contracts.

In response, the IPP companies asserted that their original contracts had been subjected to a strict interagency approval process in the Philippines, and in some cases had also been scrutinized by international agencies (e.g., World Bank, ADB, U.S. Eximbank, and bond ratings agencies). Most IPPs have been amenable to identifying mutually acceptable ways to reduce power costs and address overcapacity, but have made clear their view that contracts should not be unilaterally changed by the government.

#### Market Interventions

The government has mandated NPC electricity price rollbacks on two recent occasions, by Executive Orders issued in May of 2001 and again in May 2002. While the price rollbacks reduce the costs of power to consumers, these interventions distort the market by making NPC-based power artificially less costly than IPP power provided directly to distribution utilities such as Meralco.

In addition to the market distortion, the interventions also add to the debt burden of the NPC and ultimately of the government, at a

time when the budget deficit is increasing. In a recent decision on the setting of NPC unbundled rates, the Energy Regulatory Commission (ERC) directed the NPC to adjust the approved unbundled rates based on the Test Year ending December 2000 to reflect increases in fuel and purchased power costs to June 25, 2002. The adjustments however are not to exceed any limits placed on NPC rates by the President's Executive Orders. This restriction will not allow the NPC to adjust its rates to fully reflect actual costs for fuel and purchased power.

Thus, the interventions in rate-setting will once again result in incremental losses to the NPC, which will have to be covered by the government and ultimately, taxpayers. This indirect subsidy will not be available to non-NPC projects, resulting in an unfair advantage to NPC projects.

The Executive Orders also appear to infringe on the authority of the ERC, an independent regulatory agency, setting a precedent for future decisions. Certain IPP contracts are indexed directly to the NPC grid rate. To these IPPs, the mandated rollback in NPC price results in reduced revenues with no changes in costs.

## Challenges and Prospects

In her July 2002 State of the Nation Address (SONA), President Macapagal-Arroyo set a goal of establishing a "strong republic," and emphasized the importance of faster economic development in order to achieve a victory over poverty within the decade. Achieving this goal will require resources, resources that could become available by addressing the perennial tax collection problems.

In fact, reform of the Bureau of Internal Revenue (BIR) is crucial to the Philippines in several respects. The administration's shaky fiscal performance, due primarily to inadequate revenue collection by the BIR, threatens to undermine the economy's steady but unspectacular economic growth and its stable macroeconomic conditions. The BIR has also been a focus of charges of corruption inside and (among taxpayers) outside of government. At a time of a global economic slowdown, which has helped produce a slowdown in foreign investment in the Philippines, the importance of the BIR's task in collecting funds for infrastructure and other vital government spending is further highlighted.

The cause of economic reform received a setback with the resignation of BIR Commissioner Bañez in August, under pressure from his own employees. Nevertheless, his successor, Guillermo Parayno, appears to be committed to continuing the much-needed reforms initiated by Bañez, principally an effort to replace the BIR with a more autonomous and hopefully more efficient Independent Revenue Management Authority.

The Administration's well-respected economic team deserves continued credit for its overall macroeconomic management, but this alone has not been sufficient to lift the Philippines out of its decades-long pattern of relatively low growth, combined with relatively high rates of population increase. Beyond the immediate challenge of

### PROJECTIONS FOR 2002: SELECTED INDICATORS

	<u>2000</u> Actual	<u>2001</u> Actual	<u>2002</u> Forecast <sup>a/</sup>
<b>GDP Growth</b> (Year-on-Year, %)	4.4	3.2	3.8-4.0
<b>GNP Growth</b> (Year-on-Year, %)	4.8	3.5	4.3-4.5
<b>Average Year-on-Year Inflation</b> (1994=100, in %)	4.4	6.1	3.5-4.0
<b>Average 91-day T-bill Rate</b> (%)	9.94	9.75	6.0-7.0
<b>Average Forex Rate</b> (Pesos/US\$)	44.19	50.99	51.50-51.75
<b>Exports</b> (\$Billions)	37.3	31.2	33.4-34.3
Growth (Year-on-Year, %)	9.0	(16.2)	7.0-10.0
<b>Imports</b> (\$Billions)	30.4	28.5	30.2-30.8
Growth (Year-on-Year, %)	3.9	6.2)	6.0-8.0
<b>Trade Balance</b> (\$Billions)	6.9	2.8	3.2-3.5

<sup>a/</sup>Embassy projections as of September 2002

**Sources:** National Economic and Development Authority, Bureau of Treasury, Bangko Sentral ng Pilipinas

allocating scarce resources among competing needs, effective revenue mobilization remains crucial to meeting the needs of a growing population, addressing serious infrastructure deficiencies, and producing the human-resource capabilities demanded by intensifying global competition.

In the financial sector, banks continue to struggle with a growing portfolio of non-performing assets (past due loans and foreclosed properties) which has limited bank lending, necessitated increasing allowances for probable losses, and squeezed profit margins. Passage of legislation to facilitate the disposition of these assets is urgently needed.

While trade liberalization presents vast opportunities, intensifying global competition and the emergence of low-wage export economies also pose challenges. In particular, competition from other Southeast Asian countries and from China for investment underlines the need for progress here on structural reforms (including the successful restructuring of the power sector) to remove bottlenecks to growth, lower the costs of doing business in the country, and promote good public and private sector governance. In this regard, recent statements by government officials suggesting a slowdown on regional economic integration due to the need to protect sectors of the economy have raised questions regarding its commitment to free trade. At the same time, continued low growth in the United States and Japan, the two leading markets for Philippine exports, will continue to have repercussions on this important sector of the Philippine economy.

On the positive side, the Philippines' unique and very stable consumption spending pattern continues to hold steady, unlike its Asian neighbors whose spending patterns reflect much volatility. Overseas Filipino workers' remittances through August 2002 increased by 41% over last year, contributing to consumer spending despite concerns about a possible U.S-Iraq conflict. Although the U.S. and European economies' growth have not been as robust as expected, the global environment may be more benign than last year, leaving open the possibility of some improvement in the remaining months of 2002 in the Philippines.

## PHILIPPINES: KEY ECONOMIC INDICATORS

(In Million USD, unless otherwise noted)

	2000	2001	2002	
<b>Domestic Economy</b>				
Population (millions, 2000 census)	76.5	78.3	80.1	
Population growth (%)	2.36	2.36	2.36	
GDP (current) <i>a/</i>	74,866	71,386	73,211	]annualized
GNP (current) <i>a/</i>	79,132	75,570	78,223	]first sem.
Per Capita GDP, current dollars <i>a/</i>	979	912	914	]data
Real Per Capital GDP (% change, yr.-on-yr.)	1.9	0.9	1.8	Jan-Jun
Real GDP (% change, yr.-on-yr.)	4.4	3.2	4.1	Jan-Jun
Real GNP (% change, yr.-on-yr.)	4.8	3.5	4.7	Jan-Jun
Consumer Price Index (ave. % change, yr.-on-yr. 1994=100)	4.4	6.1	3.3	Jan-Aug
<b>Production, Employment, Fiscal Accounts</b>				
Unemployment rate (%) <i>b/</i>	11.2	11.1	11.8	Jan/Apr/Jul
Industrial prod. (1985=100), % change yr.-on-yr.	4.9	1.3	2.9	Jan-Jun
Nat'l gov't budget surplus/(deficit) <i>a/</i>	(3,080)	(2,883)	(2,829)	Jan-Aug
as % of GDP	(4.1)	(4.0)	(5.8)	Jan-Aug
Consolidated public sector surplus/(deficit) <i>a/</i>	(3,432)	(3,382)	(3,033)	Jan-Jun
as % of GDP	(4.6)	(4.7)	(6.4)	Jan-Jun
<b>Interest Rates (%)</b>				
Weighted average T-bill rate (all maturities)	11.15	11.03	6.09	Jan-Aug
Average prime loan rate	12.9	13.7	9.1	Jan-Aug
<b>Balance of Payments</b>				
Exports (FOB)	37,295	31,243	19,397	Jan-Jul
Growth (% , yr.-on-yr.)	9.0	(16.2)	7.5	Jan-Jul
Imports (FOB)	30,377	28,480	18,215	Jan-Jul
Growth (% , yr.-on-yr.)	3.9	(6.2)	5.6	Jan-Jul
Trade balance	6,918	2,763	1,182	Jan-Jul
Current account surplus (deficit)	8,459	4,603	3,445	Jan-Jun
as % of GNP	9.5	11.8	4.5	Jan-Jun
BOP surplus/(deficit)	(513)	(192)	1,729	Jan-Jun
<b>Foreign Debt, as of end of period <i>c/</i></b>	52,060	52,355	54,906	Jun
Debt service paid	6,115	6,625	3,597	Jan-Jun
Debt service (% of exports of goods and services)	12.3	15.8	15.9	Jan-Jun
<b>BSP International Reserves, as of end of period</b>	15,024	15,658	16,141	Aug
<b>Exchange Rate (pesos/\$)</b>				
Average exchange rate	44.19	50.99	50.92	Jan-Aug
Closing ave. exchange rate <i>d/</i>	49.99	51.69	51.83	Aug
<b>Foreign Direct Investment (BSP registrations) <i>e/</i></b>				
Total (cumulative, since 1973)	12,810	13,668	14,700	as of Aug
U.S. (cumulative, since 1973)	3,052	3,245	3,669	as of Aug
U.S. share (%)	23.8	23.7	25.0	as of Aug
<b>U.S.-Philippine Trade (Phil. Data)</b>				
Philippine exports to U.S., FOB <i>f/</i>	11,365	8,979	4,187	Jan-Jun
Growth (% , yr.-on-yr.)	8.8	(21.0)	(6.6)	Jan-Jun
Philippine imports from U.S., FOB <i>f/</i>	5,323	4,991	3,171	Jan-Jun
Growth (% , yr.-on-yr.)	(16.4)	(6.2)	15.9	Jan-Jun
Philippine trade balance with U.S. <i>f/</i>	6,042	3,988	1,016	Jan-Jun
U.S. share of Philippine imports (%)	17.5	14.0	20.7	Jan-Jun

*a/* originally peso values, converted to USD; *b/* annual figures computed as average of quarterly surveys (Jan/Apr/Jul/Oct); *c/* excludes "net due to" accounts of foreign commercial banks and private sector loans not approved and/or registered by/with the BSP; *d/* average on last trading day of indicated period; *e/* principally exercised to enable foreign exchange purchases from the banking system for capital repatriation and profit remittances; *f/* differs from USG data (for first half of 2002, USG statistics estimated U.S. exports to the Philippines at \$3,645 million, U.S. imports from the Philippines at \$5,249 million, and the Philippines' trade surplus with the U.S. at \$1,604 million)

**Sources:** National Economic and Development Authority; Department of Finance; Bureau of the Treasury; Bangko Sentral ng Pilipinas